

SCAN Stimulus Reiterates, Supply Creates its Own Demand

Latest stimulus package focused on construction, infrastructure & realty is expected to create demand & generate employment



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The impact of Covid-19 on the economy has been severe. However, now there is a sense of cautious optimism with economic activity continuing to show an uptick beginning September.

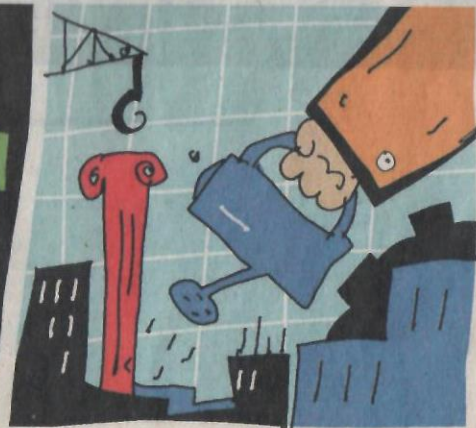
Coming to the stimulus measures, at the start of Covid outbreak, the government had come up with a stimulus package of ₹21 lakh crore with focus on supporting the sectors which can make India self-reliant. In the interregnum, there was another direct stimulus, the total cash outgo of which was estimated at around ₹40,000 crore, or around 0.21% of GDP. With India's interest rate effectively situated at the lower bound, fiscal expansion is the need of the hour and the government has now come up with a third stimulus package worth ₹2.65 lakh crore, thereby pushing the overall stimulus in conjunction with the Reserve Bank of India

at 15% of GDP. However, the combined direct cash outgo stays at around 2% of GDP for this fiscal year.

In the latest round, the government has provided incentive to formal employment generation by subsidising pension contribution for new eligible employees. As per Employees' Provident Fund Organisation data, if we purely go by current trends, we believe that almost 1.5-2.0 million employees might get benefitted from this scheme by March 2021.

As a support to industry, the Emergency Credit Line Guarantee Scheme (ECLGS 1.0) has now been extended till March 31, 2021 and an ECLGS 2.0 has been initiated to support stressed sectors as identified in the Kamath committee report. The ECLGS scheme has been a resounding success and a win-win for both MSMEs and banks. It has increased liquidity for MSMEs and conserved capital for banks. The ECLGS 2.0 can provide much-needed relief to stressed sectors by helping entities sustain employment and meet liabilities. We believe potentially around 40,000 entities can benefit from the scheme. However, if the total amount stays at Rs 3 lakh crore, the overall corpus could be a constraining factor.

The manufacturing production-linked incentives worth ₹1.5 lakh



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crore for 10 Champion Sectors — a part of this package is expected to create more employment and



The latest package pushes the overall stimulus in conjunction with RBI at 15% of GDP

boost India's manufacturing and exports. ₹3,000 crore will be released to the EXIM Bank for promotion of project exports through lines of credit under the Indian Development and Economic Assistance Scheme (IDEAS).

Additional measures focused on construction, infrastructure and realty are expected to create demand overall as well as, along the supply chain, generate employment. Thus, ₹18,000 crore will be provided for Prime Minister Awaas Yojana — Urban (PMAY-U) for grounding and completing 1.2 million and 1.8 million houses, respectively.

The temporary relaxation on the performance security on contracts from 5% to 3% and no earnest money deposit on government tenders will free up resources for contractors. The increase

in the differential from 10% to 20% between circle rate & agreement value is expected to encourage homebuyers with ticket size up to ₹2 crore to take advantage of lowering residential prices. This could help a better price discovery in the real estate sector.

The government has also committed ₹6,000 crore as equity in the National Investment and Infrastructure Fund, the instrumental body in implementing the National Infrastructure Pipeline. Overall, also capex remains a priority for the government with a ₹10,200 crore additional budget outlay being provided towards domestic defence equipment, industrial infrastructure and green energy sectors.

As a support to the rural sector, the government has increased the fertiliser subsidy by ₹65,000 crore and made an additional outlay of ₹10,000 crore for the PM Karishma Kalyan Rozgar Yojana. Additionally, ₹900 crore has been provided for the Covid Suraksha Mission for R&D of an Indian vaccine.

Overall, the latest stimulus measures are truly reminiscent of the familiar Say's Law propounded in 1803 that "Supply creates its Own demand". True Indeed!!

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